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January 21, 2020

Mr. Steve Kahl  
Director of Admin./Executive Secretary  
North Dakota Public Service Commission  
State Capitol  
600 East Boulevard, Dept. 408  
Bismarck, ND 58505-0408

**RE: Otter Tail Power Company's Request for Approval of its 2020 Renewable Resource Cost Recovery Adjustment Factor  
Case No. PU-19-387  
Informational Letter**

Dear Mr. Kahl:

Otter Tail Power Company (Otter Tail) hereby submits this Informational Letter to the North Dakota Public Service Commission (Commission) in the above referenced matter. The purpose of this letter is to provide Otter Tail's perspectives on the discussion surrounding the utilization of Federal production tax credits (Federal PTC) generated by wind resources and the potential impact on its Renewable Resource Cost Recovery Rider (Rider).

Otter Tail made its initial filing in the instant proceeding on December 31, 2019 for the recovery period April 1, 2020 through March 31, 2021 with proposed rates effective April 1, 2020. An informal hearing before the Commission is scheduled to be held February 19, 2020 for this matter.

In this proceeding, Otter Tail requests Rider recovery for its Merricourt Wind Project (Merricourt Project) which is expected to be in-service November 2020. The Merricourt Project qualifies for the Federal PTC for the first 10 years of production. Federal PTCs are utilized by Otter Tail to reduce Otter Tail's actual tax expense and this reduction to tax expense results in revenue requirement reductions for its customers. In the Initial Filing, Otter Tail provided two different methods for applying these Federal PTCs to Rider tax expense: (1) As Generated and (2) Partially Levelized<sup>1</sup>. The Commission and Commission Staff identified an alternative to the As Generated and Partially Levelized methods. This alternative method considers the total expected Federal PTCs generated by the project and the total expected return on rate base over the life of the project. This method, the Schock Look, seeks to smoothen the annual revenue requirements over the life of the project by recognizing that the expected return on rate base declines over time and applies the Federal PTC in a similar manner.

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<sup>1</sup> Otter Tail's December 31, 2019 Initial Filing in Case No. PU-20-, starting at page 5.  
*An Equal Opportunity Employer*

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Otter Tail has completed an initial cursory review of the Schock Look method and needs to work through the details but generally understands what happens in the model and continues to evaluate it. Otter Tail believes this method addresses the intergenerational issue and its main concern at this time is how this method impacts the traditional revenue requirement methodology. While Otter Tail does not see the As Generated method as unreasonable, we also see the benefit of the Schock Look method and, based on our current understanding, we believe it is a more appropriate alternative to the conventional As Generated method than is the Partially Levelized method.

Otter Tail does not currently see any inherent legal issue with applying any of the three methods to its Merricourt Project in the Rider for ratemaking purposes. Otter Tail believes it would be appropriate for the Commission to consider each project and each recovery request based on its own context and circumstances rather than requiring a single approach to be applied in all circumstances.

Enclosed is an original and seven (7) copies. An electronic copy of this filing is also being sent to the North Dakota Public Service Commission at [ndpsc@nd.gov](mailto:ndpsc@nd.gov).

Please refer all inquiries regarding this filing to Darlene Mandelke at (218) 739-8819 or [dmandelke@otpc.com](mailto:dmandelke@otpc.com).

Sincerely,

*/s/ DARLENE MANDELKE*  
Darlene Mandelke  
Rates Analyst, Regulatory Administration

rah  
Enclosures  
By electronic filing and U.S. mail